

Projections of Returns to be Filed in Fiscal Years 1985-1992

By Evan Soffer*

Filings of primary tax returns and supplemental documents processed by the Internal Revenue Service (IRS) are projected to reach 181.9 million in 1985, a 4.2 percent increase over the estimated 174.5 million filings in 1984 [1]. This 1985 returns projection, driven by a significant increase in individual income tax filings, represents a peak in the rate of growth in total filings during the 1985-to-1992 forecast interval. After posting a 3.2-percent advance in 1986, the year-to-year increase in total returns to be processed by IRS is projected to decelerate progressively from 2.6 percent in 1987 to 2.0 percent in 1992.

Employment is a crucial determinant for estimating several of the different types of tax returns filed, especially individual returns. The 1984 employment estimate used by IRS, which was obtained from Data Resources, Inc. (DRI), shows that the United States will realize a 4.6 million increase in total employment during 1984 relative to the previous year [2]. Total employment is expected to reach 177.5 million on an average annual basis in 1984 compared to 172.9 million in 1983. This increase in employment gives rise to the projected 4.5 million increase in the number of total individual returns filed next fiscal year--from 96.9 million in 1984 to 101.4 million in 1985. This change in 1985 represents a post-World War II, single-year record with respect to increased filings of individual income tax returns. Starting in 1985, the rate of employment growth is projected to decelerate, resulting in a corresponding decrease in the rate of growth in individual income tax filings in subsequent years.

Returns projections are developed by (1) using econometric models that relate the number of returns to selected independent economic and demographic variables, and (2) extrapolating observed time trends into the projection interval. The forecasting models are initially formulated on a calendar-year basis. Fiscal-year projections are derived from calendar-year statistics by various methods including seasonal adjustment [3].

The current fiscal-year projections reflect the effects of legislative, regulatory and administrative changes, as well as the impact on filings of changes in the broader economic environment. For example, where effects could be quantified, projections have been adjusted to account for the Deficit Reduction Act of 1984. In addition, the assumption of enhanced economic growth has affected projected filing levels for individual and corporate income tax returns. The current projection effort does not, however, take into account legislative or administrative changes which are under review.

SUMMARY

Total returns, as presented in Table 1, consist of primary returns, selected supplemental documents and returns that are not part of the IRS Master File system. Primary returns have historically accounted for most of the IRS document-processing workload, and this relationship between primary and total returns is expected to prevail throughout the 1985-1992 forecast period. Approximately 163.6 million primary returns were filed in 1983, compared to a total returns figure of 171.2 million during that year. Major components of the primary returns category include Forms 1040, 1040A and 104EZ--U.S. Individual Income Tax Returns; Form 1040ES--Individual Declaration of Estimated Tax; Form 1120--U.S. Corporation Income Tax Return; and, Form 941--Employer's Quarterly Federal Tax Return. The current estimates of primary and total returns to be filed in 1984 are 167.1 million and 174.5 million, respectively. Selected supplemental documents, which essentially consist of amended returns and requests for filing extensions from both individuals and corporations, accounted for 7.6-million filings processed by IRS in 1983, and they are estimated to decline to 7.3 million in 1984.

It should be noted that information documents processed by IRS, such as interest and dividend statements or Forms W-2, Wage and Tax Statement, have been excluded from all of the return categories discussed earlier. Approximately

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600 million information documents were processed in 1983, and 750 million of these forms are expected to be filed in 1984. However, most of these documents are filed on magnetic media and do not have as significant an impact on the IRS workload as their volume might suggest.

Figure A presents the respective average annual percentage changes for the major return types during the 1983-to-1992 interval. Total returns increase by an average 2.9 percent per year between 1983 and 1992. Figure B compares the number of Forms 1040, 1040A, 1040EZ, and total individual returns expected to be filed in 1985 and 1992, respectively.

Projections for 1985 and the associated rates of change from 1984 to 1985 are presented in the following table:

Type of return	1985 Projection	Change from 1984
	(000)	(%)
Total	181,865	4.2
Primary	173,743	4.0
Individual	101,367	4.6
Individual declarations ..	34,964	3.2
Fiduciary	2,121	2.6
Partnership	1,745	4.3
Corporation	3,506	7.6
Estate and gift	186	-1.6
Employment	26,980	1.8
Exempt organization	434	0.6
Employee plans	1,167	33.5
Alcohol, tobacco and firearms	471	-16.6
Excise	765	5.7
Selected supplemental documents	8,122	10.7
Non-master file	36	0

INDIVIDUAL INCOME TAX RETURNS

In all likelihood, the IRS will see a post-World War II, single-year record in increased filings of individual income tax returns in 1985. If the current 1985 projection is realized, IRS will process 4.5 million additional individual returns compared to 1984--a 4.6 percent increase. This new figure reflects the most current employment outlook associated with the general economic recovery and translates into a 1,647,000 increase in projected total individual returns during 1985, compared to last year's projection for the same period [4]. Similarly, projections for 1986 and 1987 are also higher than expected (in fall 1983) by 1,738,000 and 1,634,000, respectively. Over the longer-term portion of the forecast interval, higher projected employment levels relative to last year's outlook give rise to a higher level of total individual

returns to be processed. Upward revisions to the projections for individual returns have been made in the 1.3 million-to-1.7 million range from 1987 to 1992.

The updated forecasts reflect a significant change in the projected mix among the primary components of total individual returns--Forms 1040, 1040A and 1040EZ. Based on receipts through the end of June, it appears that the number of Forms 1040A for 1984 will be 1,672,000 lower than previously estimated (7.8 percent), due to a shift away from this form toward either the more comprehensive Form 1040 or the simpler Form 1040EZ. This shift is expected to prevail through the end of the decade. However, if taxpayers have not yet fully adjusted to the shift from a two-form to the new three-form filing structure, year-to-year fluctuations in mix may occur for the next few years which might affect the confidence which should be placed on these projections.

Unlike their Form 1040 and 1040A counterparts, Form 1040EZ filings are expected to peak in 1986 at 17.8 million; then the number of these forms filed will gradually ease down toward 1984 levels. This projected decline in Form 1040EZ filings will result from the expected decline in the population of taxpayers who typically use this form--filers in the 16-24 age bracket and filers with income under \$20,000 [5].

OTHER TAX RETURN FILINGS

Individual Declarations of Estimated Tax

Projections of Individual Declarations of Estimated Tax (Form 1040-ES "Vouchers") during the near term have been lowered by 898,000, 1,118,000 and 913,000 in 1985, 1986 and 1987, respectively. This change reflects a new methodological approach, which attempts to reflect the recent trends in the average number of ES payments made by each taxpayer during the course of the year.

ES voucher projections are formulated by applying the historical Form 1040-ES voucher-per-taxpayer-entity ratio to entity projections. Because of the lack of a clear historical trend in the voucher-to-entity ratio, it was assumed to be constant (equal to its mean value over the 1981-to-1983 period) through the end of the forecast period. This assumption lowered the projections for ES vouchers, between 3.7 percent and 7.2 percent during the 1988-to-1991 interval, compared to the forecasts presented in fall 1983.

Fiduciary

Fiduciary (Form 1041) returns were projected as a function of current dollar personal income (a proxy for changes in wealth) and time. A

Figure A
**Projected Average Annual Percentage Change in the
Number of Returns Processed, FY 1983-FY 1992**

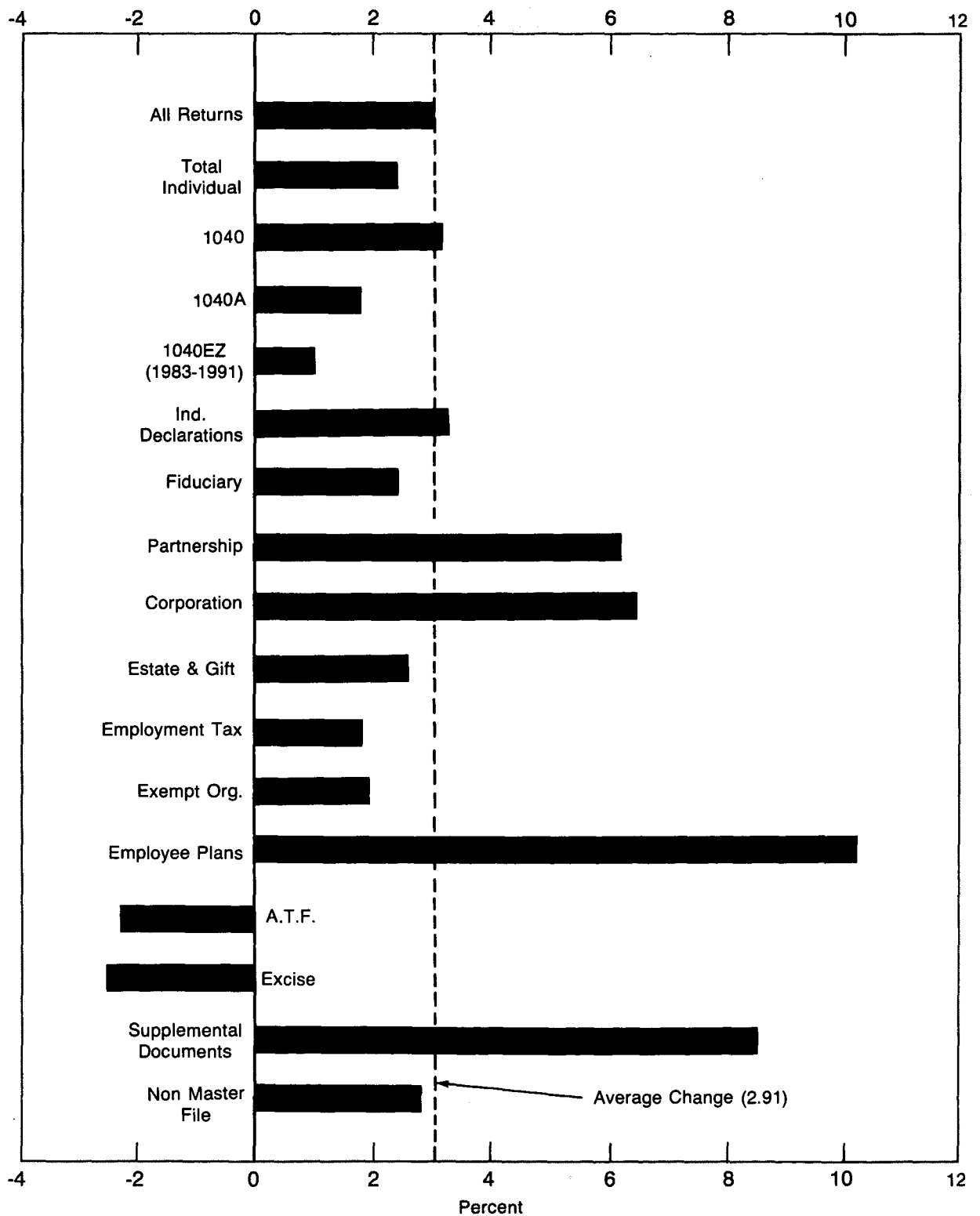
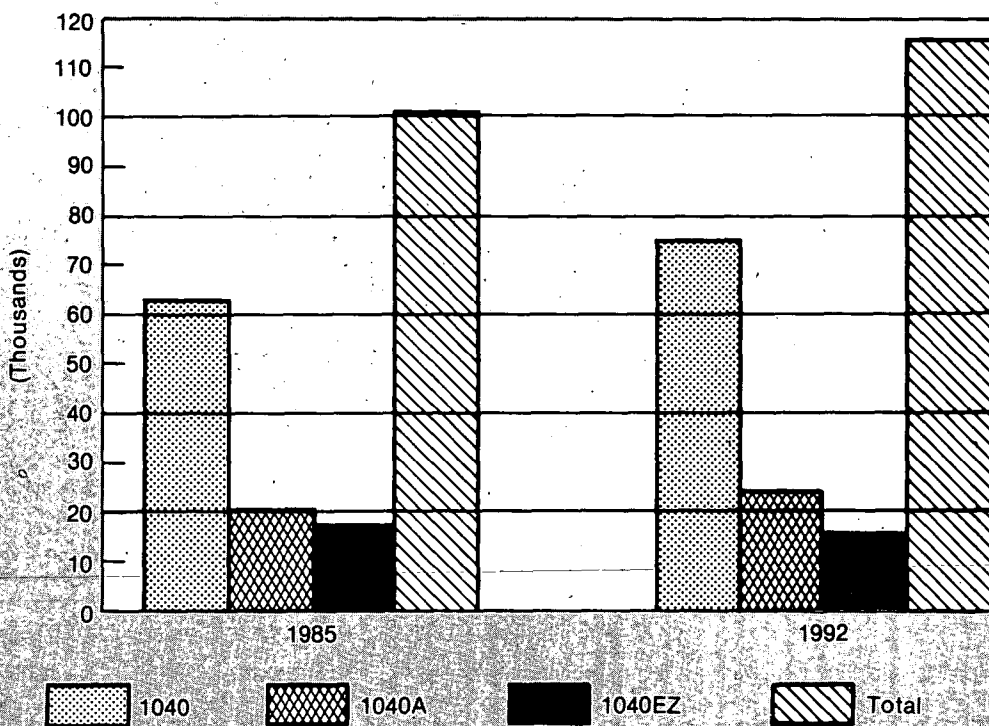


Figure B
Individual Returns by Type
Fiscal Years 1985 & 1992



stronger economic recovery than previously expected serves to bolster 1984 personal income up over last year's projections. Due to a one-year lag in the transmission of increased income to increased fiduciary filings, projections of these forms have been increased in 1985--by 16,000 returns, or 0.8 percent. In subsequent years of the forecast period, a lowered inflation outlook reduces current dollar personal income projections, which in turn lowers the forecasts for fiduciary returns. The decline in fiduciary projections,

this year compared to last year, varies from 0.7 percent in 1987 to 4.2 percent in 1991.

Partnership

Partnership (Form 1065) returns projections are also linked to current personal income. Form 1065 filings follow a growth path similar to the one presented last year, as partnership returns register increases averaging 5.0 percent per year from 1985 to the forecast horizon.

Corporation

Recent evidence on output, employment and inflation suggests a stronger near-term economic recovery than previously assumed. Improved growth in real Gross National Product (GNP) and corporate profits during the next few years is expected to increase corporation return filings to about 3.5 million in 1985, 3.7 million in 1986 and 3.9 million in 1987. Also contributing to these and additional upward revisions during late forecast years are methodological adjustments made to counter previous underprojections of this type of return.

Estate and Gift Tax

The current projections differ marginally from those presented last year. By 1988, filings of estate returns should decline to about 34 percent of their corresponding 1983 levels. This reflects the higher thresholds stipulated by the Economic Recovery Tax Act of 1981, which progressively take effect over the projection period. After a one-year plateau in 1989, estate tax returns increase as the total U.S. population ages and the number of taxpayers in the higher income levels increases.

The Deficit Reduction Act of 1984 will freeze the maximum estate and gift tax rate at 55 percent through 1987 and will reduce it to 50 percent thereafter. This compares to the Economic Recovery Tax Act of 1981, which set the top rate at 50 percent in 1985. This change should not significantly impact on filings of estate and gift tax forms over the projection interval.

Employment Tax

Forms 940, 940PR, 941, 941E, 941PR/SS, 942, 942PR, 943, 943PR, and CT-1 constitute the employment tax return category. Projections for employment tax filings exceed their fall 1983 counterparts throughout the forecast interval. Higher civilian employment projections than last year give rise to increased employment tax returns projections during the 1985-to-1991 forecast years.

Exempt Organization

Total exempt organization returns consist of Forms 990, 990C, 990PF, 990T, 4720 and 5227. Movement in this total is primarily influenced by changes in Form 990, Return of Organization Exempt from Income Tax, which account for 75 percent of the aggregate category. This year's projections of total exempt organization filings are in line with those presented last year, increasing by an average 2.2 percent per year from 1985 to 1991.

Employee Plans

Projections of Employee Plans have been significantly increased to account for the effects of the Tax Equity and Fiscal Responsibility Act of 1982. This legislation substantially changed the annual reporting requirements for Keogh and H.R. 10 plan filers by requiring all administrators of plans with fewer than 100 participants, including owner-employee plans, to file Form 5500-C, Return/Report of Employee Benefit Plan (with fewer than 100 participants) starting with returns filed in 1985. As a result, an estimated 200,000 additional filers are expected in 1985 with increases in subsequent years exceeding this figure, as the number of filers affected increases and additional taxpayers become aware of this new filing requirement.

Alcohol, Tobacco and Firearms

Taken together, Forms 7, 8, 11, 4705, 4706, 4707, 4708 and Alcohol and Tobacco Excise Taxes comprise the total alcohol, tobacco and firearms return category. Projections of these returns are similar to those put forth in the fall 1983 forecast, with the exception of the 1986 figure, which has been raised by 212,000 to account for a one-time alcohol floor stocks tax imposed by the Deficit Reduction Act of 1984, which is in effect that year.

Excise

Projections of total excise tax filings (Forms 11C, 720, 730 and 2290) have been lowered throughout the forecast interval to account for provisions of the Surface Transportation Act of 1982 and the Deficit Reduction Act of 1984. Both statutes raise the weight thresholds used for filing Form 2290, Federal Use Tax Return on Highway Motor Vehicles. Under the provisions of the Surface Transportation Act of 1982, all owners with fleets of six or more trucks weighing between 26,000-33,000 pounds Gross Vehicle Weight (G.V.W.) are no longer required to file a Form 2290 during the July 1984-to-June 1985 period. The 1984 Deficit Reduction Act stipulates that owners of trucks weighing 55,000 pounds G.V.W. or less do not have to file a Form 2290 from July 1984 onward.

Selected Supplemental Documents

Supplemental documents include Forms 1040X, 1041A, 1120X, 2688, 4868, 7004 and 7005. Due to a stipulation of the Deficit Reduction Act of 1984 which mandates that Individual Retirement Accounts (IRA's) must be funded no later than April 15 of the filing year, the projected number of extensions to file individual income tax returns (Form 4868) has been lowered from

last year. The reduction reflects the number of taxpayers that may have previously filed for an extension in order to gain additional time to fund an IRA.

Methodology and Assumptions

The number of returns filed represents processed returns at IRS Service Centers during a fiscal year. Returns processed in 1983 and receipts for previous years are reported in the Annual Report of the Commissioner of Internal Revenue [6]. Data for 1984 include actual processed returns through June, with the remainder of the year estimated, in general, on the basis of 1983 filing patterns.

As an example of the general forecasting process, projections for the combined total of Forms 1040, 1040A and 1040EZ returns were developed from the results of a regression relating number of total 1040 returns to total employment, employed married women with husbands present (used as a proxy for potential joint filers), pension beneficiaries and annuitants and a qualitative "dummy" variable which accounts for the effects of the Tax Reduction and Simplification Act of 1977 on total Form 1040 filings [7]. A 1949-1984 base period was used for this regression, with the 1984 returns estimate derived from January-June returns processed and 1983 filing patterns.

Return projections were primarily formulated on a calendar-year basis and subsequently converted to fiscal-year projections by the Census Bureau's X11-Q Seasonal Adjustment Program by applying resultant seasonal factors to calendar-year projections [8].

Table 1 presents the current projections for the major types of returns to be processed by IRS during the 1985-to-1992 interval. In addition, actual and estimated receipt figures are displayed for 1983 and 1984, respectively. Table 2 presents differences between the current projections and those presented in fall 1983.

NOTES AND REFERENCES

[1] All statistics are cited on a fiscal-year basis, unless otherwise noted. As defined

in Table 1, primary tax returns are equal to total returns minus supplemental documents. A complete listing of tax returns included in this table can be found in U.S. Department of the Treasury, Internal Revenue Service, Annual Report: Commissioner of Internal Revenue and the Chief Counsel for the Internal Revenue Service: 1983, Publication 55, Washington, DC, 1983.

- [2] Employment, Gross National Product, and personal income projections were obtained from Data Resources, Inc. (DRI).
- [3] For details of these methods, see U.S. Department of the Treasury, Internal Revenue Service, "Number of Returns to be Filed," Fiscal Year Projections series, Document 6292 (Rev. 8-84).
- [4] Fratantuono, Richard and O'Keefe, Patrick, "Projections of Returns to be Filed in Fiscal Years 1984-1991," Statistics of Income Bulletin, Fall 1983, p.29.
- [5] Results of the Tax Year 1982 Taxpayer Usage Study (TPUS) indicated that 97.5 percent of all 1040EZ returns were filed by persons with adjusted gross income (AGI) under \$20,000 and that approximately 68 percent of 1040EZ filers were between the ages of 16 and 24. "Individual Income Tax Returns 1982 Taxpayer Usage Study," Statistics of Income Division, Document 6528, September 1983, Table 1, and unpublished data from the Office of Tax Analysis.
- [6] U.S. Department of the Treasury, Internal Revenue Service, Annual Report.
- [7] Projections of total employment, employed married women with husbands present and pension beneficiaries and annuitants are all prepared by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [8] U.S. Bureau of the Census, "The X11-Q Variant of the Census Method II Seasonal Adjustment Program," Technical Paper No. 15 (1967 revision).

Table 1.--Number of Returns by Type, Fiscal Years 1983-1992¹

[Numbers are in thousands]

Type of return ²	Actual	Estimate	Projected							
	1983	1984 ³	1985	1986	1987	1988	1989	1990	1991	1992
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Grand total	171,179	174,465	181,865	187,607	192,488	197,413	202,456	207,316	211,771	216,061
Primary total	163,577	167,126	173,743	178,732	182,931	187,100	191,373	195,460	199,146	202,662
Individual, total	95,284	96,909	101,367	104,389	106,528	109,003	111,349	113,379	115,083	116,588
Form 1040	59,187	61,021	63,310	65,147	66,763	68,738	70,736	72,643	74,161	75,462
Form 1040A	21,057	19,841	20,675	21,289	21,877	22,518	23,149	23,769	24,272	24,674
Form 1040EZ	14,884	15,891	17,223	17,789	17,718	17,572	17,284	16,780	16,457	16,253
Other	156	156	159	164	170	175	181	187	193	200
Declaration of estimated tax ...	33,080	33,886	34,964	36,113	37,577	38,424	39,518	40,683	41,771	42,895
Fiduciary	1,994	2,066	2,121	2,170	2,219	2,265	2,302	2,347	2,394	2,433
Partnership	1,586	1,674	1,745	1,813	1,893	1,989	2,094	2,211	2,338	2,478
Corporation	3,078	3,259	3,506	3,705	3,888	4,078	4,272	4,480	4,683	4,885
Estate tax	111	93	78	67	47	38	38	41	44	47
Gift tax	91	96	108	122	136	151	165	178	191	203
Employment tax	25,537	26,513	26,980	27,293	27,720	28,167	28,603	29,030	29,464	29,901
Exempt organization	437	432	434	444	453	462	473	491	504	516
Employee plans	752	874	1,167	1,203	1,247	1,284	1,315	1,367	1,406	1,443
AT&F	583	564	471	664	463	469	462	461	467	460
Excise	1,009	724	765	713	722	732	741	750	760	769
Selected supplemental, total ...	7,602	7,339	8,122	8,874	9,557	10,313	11,084	11,855	12,625	13,399
Form 1040X	2,000	1,822	2,153	2,323	2,471	2,639	2,808	2,972	3,133	3,291
Form 4868	3,345	3,360	3,604	3,986	4,335	4,722	5,114	5,502	5,885	6,266
Form 2688	818	791	886	988	1,081	1,185	1,291	1,395	1,499	1,602
Form 1120X	58	65	76	83	90	97	104	111	117	124
Form 7004	1,158	1,283	1,385	1,476	1,560	1,650	1,748	1,854	1,969	2,094
Form 7005	205	1	-	-	-	-	-	-	-	-
Form 1041A	17	18	19	19	19	20	20	21	21	21
Non-master file	35	36	36	37	38	39	40	41	43	44

¹Projections based on number of returns processed as reported on NO-TX-R-308.²See return definitions below:

Primary total = Grand total minus selected supplemental;

Individual, other includes Forms 1040NR, 1040PR, 1040SS, and 1040C;

Corporation includes Forms 1120, 1120A, 1120-F, 1120POL, 1120S, 1120-H, and other 1120's;

Employment tax includes Forms 940, 940PR, 941, 941E, 941PR, 941SS, 942, 942PR, 943, 943PR, and CT-1;

Exempt organization includes Forms 990, 990C, 990PF, 990-T, 4720, and 5227;

Employee plans includes Forms 5500, 5500-C, 5500-G, 5500-K, and 5500-R;

AT&F includes Forms 7, 8, 11, 4705, 4706, 4707, 4708, and alcohol and tobacco excise tax returns;

Excise includes Forms 11C, 720, 730, and 2290;

Non-master file includes Forms CT-2, 720M, 941M, 941NMI, 990BL, 1042, and 1120-DISC.

³Based on returns processed through June 30, 1984.

NOTE: Detail may not add to total because of rounding.

Table 2.--Differences Between Projections: Fall 1984 Versus Fall 1983*

[Numbers are in thousands]

Type of return	Actual	Estimate	Projected						
	1983	1984	1985	1986	1987	1988	1989	1990	1991
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Grand total	-336	-478	533	536	478	-39	-695	-785	-959
Primary total	-301	427	1,417	1,496	1,512	1,023	398	349	-46
Individual, total	681	640	1,647	1,738	1,634	1,636	1,335	1,673	1,613
Form 1040	785	2,372	3,629	4,334	4,191	4,693	5,220	6,122	6,591
Form 1040A	37	-1,672	-2,361	-2,664	-2,581	-2,999	-3,572	-3,699	-3,972
Form 1040EZ	-138	-55	383	75	32	-49	-574	-739	-996
Other	-3	-5	-5	-6	-8	-9	-11	-11	-10
Declaration of estimated tax	-333	-454	-898	-1,118	-913	-1,483	-1,927	-2,656	-3,250
Fiduciary	6	24	16	0	-16	-35	-63	-83	-104
Partnership	-26	8	1	-35	-52	-60	-57	-40	-10
Corporation	10	72	206	282	341	409	479	567	646
Estate tax	-3	0	2	3	2	-3	-6	-6	-6
Gift tax	5	-5	-8	-10	0	1	2	2	6
Employment tax	-454	71	29	15	30	14	67	207	308
Exempt organization	-27	-3	1	5	7	9	14	25	31
Employee plans	-308	-179	95	107	132	151	164	199	221
AT&F	0	-7	10	212	14	17	19	21	24
Excise	160	-145	-122	-173	-172	-171	-170	-169	-167
Selected supplemental, total	-35	-905	-884	-961	-1,034	-1,062	-1,092	-1,135	-913
Form 1040X	43	-255	-77	-74	-63	-30	-15	26	52
Form 4868	59	-145	-311	-351	-388	-419	-457	-474	-244
Form 2688	55	-68	-31	-36	-51	-47	-48	-57	-58
Form 1120X	-22	-29	-32	-39	-43	-45	-47	-49	-53
Form 7004	-13	3	14	21	25	29	33	38	43
Form 7005	-158	-412	-448	-482	-516	-551	-559	-620	-655
Form 1041A	0	1	2	1	1	1	1	1	1
Non-master file	-8	-8	-11	-11	-11	-12	-11	-12	-11

* Differences equal Fall 1984 projection minus Fall 1983 projection.